



June 4, 2008

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave., NW
Washington DC 20551

Re: Federal Reserve Board's Proposed Changes to ACH Debit Posting Time

Dear Ms. Johnson:

On behalf of its member Corporate Credit Unions ("Corporates"), the Association of Corporate Credit Unions ("ACCU") appreciates the opportunity to respond to the request for comment by the Board of Governors of the Federal Reserve System ("the Board") with respect to its proposed changes to the ACH Debit posting time ("ACH Proposal") from 11:00 a.m. to 8:30 a.m. Eastern time. The ACCU is the primary trade association for the nation's 27 Corporates, including U.S. Central Federal Credit Union ("U.S. Central"), the nation's wholesale corporate credit union. Corporates provide investment, liquidity, cash-management services, risk-management, settlement, funds transfer, numerous payment services, and safekeeping and custody services to the nation's approximately 8,400 natural person (retail) credit unions throughout the country.

Specifically, the Board proposes to change the posting time for ACH debit transactions that are processed by the FedACH service to 8:30 a.m. Eastern time to coincide with the posting time for commercial and government ACH credit transactions.

The ACCU notes that the Board has also requested comment with respect to certain proposed changes to its Payments System Risk Policy (PSR Policy) that would adopt a new strategy for providing intraday balances and credit to depository institutions and encourages such institutions to collateralize their daylight overdrafts.¹ While the ACCU is submitting a separate response to the request for comment regarding the PSR Policy, it is important for the Board to recognize the unique adverse impact that the adoption of the ACH Proposal would have on the competitive position of Corporates if Corporates, as bankers' banks, are excluded from the proposed changes of the PSR Policy. Accordingly, the ACCU believes that the Board should seriously consider adopting the recommendation set forth below to provide competitive parity among all payment system participants.

¹ 73 *Fed. Reg.* 12417 (March 7, 2008).

RECOMMENDATION

The ACCU strongly opposes the FRB's proposal to change the posting times for ACH debits from 11:00 a.m. to 8:30 a.m. ET, if Corporates, as bankers' banks, are excluded from collateralizing daylight overdrafts under the proposed PSR Policy changes since the ACH debit change would create an extreme hardship for Corporates and their constituents in managing their balances with the Federal Reserve Banks. As bankers' banks, Corporates (with the exception of U.S. Central) do not have access to the Federal Reserve's discount window and therefore may not incur daylight overdrafts.

The ACCU recommends that if the Board adopts the ACH Proposal, the Board should seriously consider adopting the recommendation set forth in our comment letter regarding the PSR Policy change in which we provide rational for allowing Corporates and other bankers' banks to pledge collateral (like all other depository institutions) for their intraday overdrafts and thereby provide competitive parity among all payment system participants. Providing Corporates and other bankers' banks the ability to pledge collateral would reduce credit risk, reduce operational risk, and assure the Reserve Banks of adequate collateral to cover any intraday overdraft.

In addition, the ACCU recommends that if the Board adopts the ACH Proposal and the PSR Policy, that it implement these changes concurrently so as to reduce the operational burden and complexities associated with different timing of these changes.

BACKGROUND AND OPERATIONAL CONSIDERATIONS

The penalties applied to a bankers' bank for incurring a daylight overdraft can be severe and Corporates strive to avoid these occurrences. The ACCU believes it is important for the Board to recognize the unique adverse impact the adoption of this proposed change would have on Corporates.

Currently, Corporates have the ability to react to large ACH debits applied to their respective Federal Reserve Bank (FRB) accounts because the majority of these debits are posted at 11:00 a.m. whereas the credits are applied at 8:30 a.m. Corporates have arrangements with external parties to have funding within a short period of time in order to have sufficient balances in FRB accounts to fund the 11:00 a.m. debits. Generally, Corporates and the natural person credit unions that they serve are net payers, resulting in Corporates funding their net debit positions with the FRB most days of the week.

Should the Board elect to apply the ACH debits and credits to institutions' accounts simultaneously, it will impact the ability for Corporates to plan accordingly to fund the debits as the current two-and-a-half hour time period to react will be eliminated. As a result of fluctuations in daily ACH debits and credits, it would be nearly impossible to accurately predict an exact amount for earlier funding. This issue is exacerbated by the fact that the net amount will be applied to Corporates' accounts at 8:30 a.m., which is earlier than some of their current funding counterparties will be able to provide funds. Wire transfers from funding counterparties cannot be sent prior to the FRB wire opening at

8:30 a.m. Today, funding from counterparties is usually received before the 11:00 a.m. posting of the ACH debits. If ACH debits were to move to 8:30 a.m., early morning funding would be very difficult to achieve. Even if early morning funding could be achieved, changing the current time would significantly increase operational costs for Corporates and may put additional pressure on the availability of funding.

In reaction to the proposed changes, Corporates will be forced to extensively revise their cash management practices in order to avoid daylight overdrafts. The most likely alteration would be for Corporates to retain substantially higher overnight balances in their FRB accounts. Retaining significantly higher balances in FRB accounts will result in considerable foregone interest income totaling millions of dollars across the Corporate system on an annual basis assuming a 2% Fed Funds rate as an alternative. Even if Corporates could secure funding earlier in the day as opposed to holding significantly higher balances in their FRB accounts, the cost of securing these earlier funds will be substantial.

The FRB will apply the earnings credit rate on the additional balances held by Corporates which will reduce the hard dollar fees Corporates pay to the FRB. However, this only applies to 90% of the balances (the Marginal Reserve Ratio) and uses a rate equal to 80% of the bond equivalent yield of the three-month Treasury Bill for the prior 13 weeks. During the most recent billing period, this resulted in a rate that was 83 basis points lower than the Fed Funds rate.

As a result, the net reduction in income Corporates may experience from holding higher balances in their Fed accounts could be approximately 10% or more of their net income on an annual basis.

This loss in income would likely cause Corporates to increase the fees they charge to their member credit unions for ACH services or decrease the rates they pay on member credit union deposits. In either case, the nearly 90 million consumers using credit unions across the country may feel the negative impact of this proposed change.

The ACCU believes the proposed changes significantly increase the risk that Corporates will incur daylight overdrafts and will force them to over-fund the overnight balances at Federal Reserve Banks at a substantial loss of income. Additionally, the proposal has the potential to increase pressure on early morning funding sources, which would also result in higher costs for those institutions requiring the funding. Neither of these scenarios sends a positive message to the public in these times of liquidity concerns.

SUMMARY

The ACCU respectfully requests that the Board keep the current ACH posting times in place in order to allow net payers, or those institutions required to fund net anticipated debits, the ability to efficiently fund these positions. Further, the ACCU suggests that the Board keep the current market crisis and liquidity pressure in mind when considering this proposed change, especially given that the majority of Corporates will likely seek early morning funding from the same source, U.S.

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Central. The funding pressure on U.S. Central as well as other funding counterparties could add to the liquidity concerns currently being experienced.

We recommend an alternative resolution that would permit Corporates and other bankers' banks to incur daylight overdrafts in an amount equal to a level of acceptable collateral posted with the FRB, essentially defeasing the potential daylight overdrafts. In addition, we request that if the ACH Proposal and the PSR Policy are adopted, they should be implemented concurrently.

As noted, the ACCU is submitting a separate response regarding the PSR Policy change and we suggest that the Board not only adopt such a practice, but expand it to include Corporates and other bankers' banks as well in order to provide competitive parity among all payment system participants.

In ACCU's opinion, defeasing possible daylight overdrafts, after applying an acceptable haircut, would substantially limit if not completely eliminate, the potential risk to the FRB of allowing bankers' banks to incur daylight overdrafts.

The ACCU appreciates the opportunity to provide comments to the Board and I would be happy to address any questions or need for clarification with regards to this letter.

Sincerely,

A handwritten signature in black ink, appearing to read "Brad L. Miller", with a stylized flourish at the end.

Brad L. Miller
Executive Director